

Report #2021-07

DELL CONTRACT COMPLIANCE AUDIT

NUMBER OF RECOMMENDATIONS

PRIORITY 1

0

PRIORITY 2

0

PRIORITY 3

2

*City of Glendale
Internal Audit*

03.15.2021



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Acknowledgment

We would like to thank staff from Information Services and Finance departments for the support and assistance provided to us throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Sameel Salim, Sr. Internal Auditor, or Jessie Zhang, Internal Audit Manager at ipa@glendaleca.gov
 This report is also available online at <http://www.glendaleca.gov>

A. Overview

Key Outcomes

The City utilizes a national cooperative purchasing agreement (cooperative agreement) to purchase Dell computer equipment. Internal Audit reviewed a sample of invoices and found the Dell purchases to be adequately supported and approved, with exceptions noted in the use tax calculation and incorrect account classification. Additionally, it was not conclusive whether using the Dell cooperative agreement will result in lower prices. Therefore, Internal Audit recommends ISD to perform additional due diligence steps prior to purchasing to ensure preferential pricing is received, especially for high volume purchases.

Internal Audit identified two improvement opportunities related to compliance and cost reduction.

Impact Dashboard

This table summarizes the applicable value-added categories (total 3) for the two recommendations based on their priority rankings.

| | Value Added Categories | | | | Innovation Opportunities |
|-------------------------------|------------------------|-------------|------------|----------------|--------------------------|
| | Compliance | Cost Saving | Efficiency | Risk Reduction | |
| Priority 1 0 | 0 | 0 | 0 | 0 | 0 |
| Priority 2 0 | 0 | 0 | 0 | 0 | 0 |
| Priority 3 2 | 1 | 2 | 0 | 0 | 0 |

(Definitions of Priority Rankings and Value-added impacts are located at Appendix 1)

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

| Ref. | Management Action Plan | Completion Date |
|-------------------|--|-----------------|
| Priority 3 | | |
| 1. | Establish due diligence considerations, based on criteria (such as volume) to ensure the City receives the best pricing when using cooperative agreements. <i>Value added:</i> Cost Saving | 09/30/2021 |
| 2. | Exclude Environmental Fees from the use tax calculation, train/remind staff to release use taxes, and re-classify laptops to a computer related account. <i>Value added:</i> Compliance , Cost Saving | 09/30/2021 |

C. Background

As requested by Information Services Department (ISD) management, Internal Audit has completed its contract compliance review of the Dell contract. The Dell contract is a City Council approved contract that allows ISD to dispense with the in-house bidding process and instead purchase directly from Dell using a national cooperative agreement.

[Cooperative Purchasing Agreements - Overview](#)

Cooperative agreements are an increasingly used procurement tool within governments. Cooperative agreements are created by a lead agency who is responsible for conducting the request for proposal (RFP) process, evaluating vendor responses, and ultimately awarding the vendor(s) the cooperative agreement. Unlike the “lowest cost” criteria traditionally used in public agencies, cooperative agreements tend to be awarded using the “best value” criteria to evaluate vendors using a number of different factors, such as qualifications & experience, and the ability to serve a national market. As price is only one of the factors used to evaluate prospective vendors, the cooperative agreement may or may not offer the lowest pricing. However, using the cooperative agreement may save time and administrative costs by eliminating the need to undergo the in-house bidding process.

[Dell Cooperative Purchasing Agreement](#)

The Lead Agency for the Dell cooperative agreement was the State of Minnesota (Minnesota). The cooperative agreement was awarded in 2015 and is currently set to expire on July 31, 2021. Internal Audit reviewed the RFP documentation for this

cooperative agreement and like most cooperative agreements, this was also awarded using the “best value” criteria.

Minnesota received 36 responses to their RFP from prospective vendors. Four vendors were determined to be non-responsive and therefore rejected. The 32 remaining companies, including Dell, were awarded cooperative agreement contracts to provide general computer services.

The Dell cooperative agreement provides for the following:

- States the minimum discounts off list price for various product types
- Grants access to Dell’s ‘Premier’ website, where orders can be placed at preferential price points
- Allows users to request additional discounts for volume purchases

As stated above, the Dell cooperative agreement does allow participants to request for additional volume based discounts. Therefore, the City should be performing price comparisons prior to purchase and attempt to negotiate further discounts from Dell.

D. Objective, Scope and Methodology

The objective of this audit is to determine if controls exist to ensure the Dell contract and associated purchase orders are appropriately administered and the invoices are processed in accordance with the contract/purchase order terms and are recorded in an accurate manner.

The scope of the audit covered the period of January 1, 2020 to September 30, 2020. In order to accomplish the audit objectives, Internal Audit performed the following:

- Interviewed ISD and Finance personnel regarding the Dell contract and corresponding processes.
- Obtained and reviewed the Dell contract, cooperative agreement, and supporting documentation.
- Sampled invoices for the test period and verified if the purchase orders/invoices were supported, approved, and recorded accurately.
- Compared prices between Dell cooperative agreement, Dell consumer website, and one Dell third-party reseller to determine if preferential pricing was received.

As a result of these audit procedures performed, two observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

E. Observations, Recommendations, & Management Responses Matrix

| Ref | Observation | Recommendation | Management Response |
|-------------------|--|---|---|
| 1. | Establish Due Diligence Considerations | | |
| Priority 3 | <p>The Dell cooperative agreement was awarded based on “best value” criteria. Nonetheless, the agreement does allow participants to request additional volume related discounts. However, Internal Audit noted ISD has not established any criteria to:</p> <ul style="list-style-type: none"> a. Validate if the City is receiving the agreement’s minimum discounts. b. Seek additional discounts for high volume purchases. | <p>ISD Management ensure the quotes received from Dell always include list and discounted prices to verify against the minimum discounts stated in the agreement.</p> <p>In addition, ISD management work with Purchasing to establish due diligence considerations to ensure the City receives the best price, especially for high volume purchases.</p> | <p>Agrees and will implement by September 30, 2021.</p> |

| Ref | Observation | Recommendation | Management Response |
|---|---|---|--|
| 2. Use Tax Calculation and Laptops Recording | | | |
| Priority 3 | <p>Based on a sample review of 15 invoices totaling \$594,000, which represented 89% of the \$666,000 Dell purchases from January 1, 2020 to September 30, 2020, Internal Audit noted the following:</p> <ul style="list-style-type: none"> a. When calculating use tax on applicable Dell purchases, ISD incorrectly included Environmental Fees to the total purchase price in 11 of the 15 invoices sampled, resulting in an overpayment of use tax. When the use tax was being prepared for release by Accounts Payable, it was not verified. As a result, \$139 of use tax was over paid to the State of California. b. One invoice was noted where use tax was inadvertently not released for payment by Accounts Payable staff. As a result, \$180 of use tax was not paid to the State of California. c. One invoice for 50 laptops totaling \$81,000 was incorrectly recorded to General Supplies accounting category. The charges should have been recorded to a computer related account. | <p>Management perform the following:</p> <ul style="list-style-type: none"> a. ISD exclude Environmental Fees from the use tax calculation within requisitions. b. Accounts Payable verify that the use tax was calculated properly, and train/remind staff to apply use tax for applicable purchases. c. ISD request to re-classify miscoded transaction from General Supplies to a computer related account. | <p>Agrees and will implement by September 30, 2021.</p> <ul style="list-style-type: none"> a. ISD will exclude Environmental Fees from its use tax calculation for future purchases. The next tax filing to the State of California will reflect these overpayments. b. Accounts Payable has reminded staff to apply use tax on applicable purchases and has created a journal entry to account for the unpaid taxes. The next tax filing to the State of California will reflect this underpayment. c. The laptops will be reclassified to a computer related account. |

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.

In addition, the **INNOVATION OPPORTUNITY** tag indicates the assistance and consulting services that may be provided by the Innovation and Performance Team.